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Philosophy Behind Need Analysis Methods

by Mark Heffron

It is generally agreed that the process of understanding and administering student financial aid would be simplified if the present Pell Grant and need analysis formulas could effectively be melded into a single formula. Before adopting a single formula to be used in determining student financial need for all types of aid and also in determining the amount of a student's Pell Grant award, however, I believe that two primary questions must be answered:

- Can an analysis be developed that serves both as an objective measure of student need and also determines the amount of Pell Grant awards in an acceptable manner?
- Can such an analysis be protected from the inclusion of features primarily designed to control Pell Grant spending and/or target Pell Grant funds to unique populations?

Before going further, I will stipulate that: (a) no need analysis formula can be entirely objective; and (b) need analysis is a rationing device and, therefore, must relate to the general availability of funding. The formula should, however, follow a consistent philosophy, promote horizontal and vertical equity, and meet the general public's perceptions of fairness and common sense. In my opinion, neither the current Pell formula nor the Congressional Methodology meet these criteria. Finally, the funding limitations of one program or set of programs should not unduly influence the formula.

Mr. Fischer believes that the Congressional Methodology (CM) can be used as the single formula, but he does not address the matter of insulating the formula from "funding-based" influences. His paper makes a number of excellent observations about the features of the Pell Grant formula and Congressional Methodology formula (which he calls "general need analysis"), the differing cost of attendance figures used therein, and the impact of the differences.

Mr. Fischer's acceptance of the Congressional Methodology as a Pell Grant determinant appears to be heavily influenced by his analysis that, in the aggregate, there is a positive relationship between Pell Grant Indices and CM expected family contributions, and that the change to CM would cost the federal government no more than does the current Pell Grant formula. Figure 1 of his paper, however, oversimplifies the relationship between the Pell and CM formulas by lumping dependent and independent student cases together. A \$20,000 income does not define the same economic status for a single independent student as it does for a dependent student from a family of four. The averages displayed thus mask the fact that there would be a great deal of change in Pell Grant eligibility for students within any family income category.

As the paper notes, Pell Grant and CM formulas have very different treatments of dependent student earnings, parental resources and the resources of some independent students. The CM formula

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might be made to distribute similar amounts of Pell Grant funds to students in the \$15,000 to \$25,000 family income range, but they would be different students than now receive the funding, depending on the composition of their income and their dependency status.

His Figure 4 shows graphically that, on average, the distribution of Pell Grant funds by family income level would be similar under the CM to what it now is under the Pell Grant formula, with the exception that independent students would be eligible at much higher income levels. Such arguments are persuasive if you believe that neutral federal spending is an end in itself and that the current distribution of Pell Grant funds is appropriate. Although I agree with a great deal of what Mr. Fischer has to say in his paper, I don't happen to subscribe to these beliefs. In my opinion, the Pell Grant formula is already excessively generous (in comparison to its treatment of other groups) to independent students with dependents.

As is noted, the existence of *minimum student contributions* in the Congressional Methodology is problematic when applied to the Pell Grant award determination. (These minimums are \$700 for dependent freshmen, \$900 for other dependent students, \$1,200 for single independent students and \$0 to \$198 for independents with dependents.) The use of the CM minimums would result in an effective maximum Pell Grant award of \$1,600 (\$2,300 minus \$700) for dependent freshmen, \$1,400 for other dependent students, \$1,100 for single independents and \$2,102 to \$2,300 for independents with dependents.

In dismissing the above phenomena, Mr. Fischer confuses the maximum Pell Grant award with student need. A minimum student contribution expectation is merely a statement that students are expected to contribute some minimum amount to their educational costs from their own efforts. (Admittedly, as prescribed in the Congressional Methodology, it's a rather confusing statement.) The minimum contribution *should* be used in calculating need but *should not* be used to reduce a Pell Grant unless need has been met. Under Mr. Fischer's proposal, maximum Pell Grant eligibility will vary arbitrarily by dependency status and class level, and students who earn money to supplement Pell Grant assistance will quickly and directly reduce the amounts of their grants for the following year. Pell Grant recipients with unmet need may find themselves in a more-work/less-grant spiral. The current Pell Grant formula at least lets a student earn a certain amount of money before reducing next year's Pell award. A traditional financial aid package includes grant, loan and work components. It makes little sense to have receipt of one component reduce the amount of another component before need is met.

Part of the problem in using a need analysis formula to determine the amount of Pell Grant awards is that, although the Pell Grant award determination formula has been partially structured like a need analysis system, and has been need-related, it has never been need-based. The Pell Grant Index was not developed to determine a logical level of contribution, nor was the Pell Grant program cost of

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attendance developed to describe realistic costs. The Pell Grant Payment Schedule often derives the same award for students with widely different Pell Grant Indices and costs of attendance. All of these facets of the Pell Grant formula have been manipulated over the years in an attempt to regulate spending or to move Pell Grant eligibility to one segment of the population or another.

Some financial aid administrators will remember the Spring of 1981, when the Pell Grant formula was changed after system start-up to revert to the Family Size Offsets from the previous year, thereby ignoring 1980 inflation of about 14 percent. The purpose was to restrict eligibility and save money. This skipped year of inflation has never been added back. As a result, the Family Size Offsets for 1990-91 represent a living standard which is about 20 percent below the poverty level it is intended to represent. The Pell Grant formula has never incorporated an allowance for FICA taxes and, until recently, did not make allowances for state and other taxes, even though monies paid out in taxes obviously are not available to be spent on educational costs. These under-allowances and missing allowances make poor need analysis practice but have tended to target Pell Grant funds to the lowest-income population.

The Pell Grant Family Contribution Schedule formula was originally developed to assess students' after-tax income at 100 percent. Veterans groups, however, protested that the receipt of veterans benefits would preclude Pell Grant eligibility, since the average benefit exceeded the maximum Grant. To avoid this politically unacceptable result, the formula was changed to count only 50 percent of veterans benefits. Dependent students' benefits were counted as parents' income. With the various assessment rates that existed in the formula, receipt of veterans benefits reduced the Grant award by between 2 percent and 50 percent of the benefit amount. Such random discounting and assessment of income do not derive realistic need figures.

Mr. Fischer's paper adequately describes the shortcomings of the Pell Grant cost of attendance. Cost of attendance allowances have always been manipulated to effect a result, bearing only passing acquaintance to the real costs of attending college.

Each of the above is an example of how the Pell Grant formula has been manipulated for reasons bearing little relationship to student need. For the purpose of Pell Grant distribution, some of the manipulations made sense. For need analysis purposes, they make no sense. Linear reduction of the Payment Schedule provides a means for saving money without touching the formula. Before that, "ratable" reduction and other methods provided a similar opportunity. The existence of these money-saving devices did not keep the government from introducing anomalies into the Pell Grant formula, however. If there is not a separate Pell Grant formula to absorb such tinkering, will the Congress not be likely to modify the need analysis formula for the sole purpose of Pell Grant redistribution?

A need analysis formula should be derived to implement a particular stated philosophy. The Congressional Methodology is lacking

in this regard. The political arena in which it was developed and in which it resides does not lend itself to publication of such statements. (The public does not tend to reward politicians who are too candid.) There is no place to which one can refer to determine whether any particular feature of the Congressional Methodology exists because it was copied from the Uniform Methodology, because it was an error or oversight, or because it implements a desired and defined philosophy. Subsequent modifications are likely to be made because vocal constituents want them, whether they conform to the philosophy of the rest of the formula or not. Since Congress is unlikely to relinquish control of the formula, this is a fact of life. It is the political process and some will find that very appropriate. (The exercise of "professional judgment," the traditional financial aid strength of placing a human between the formula and the student, is certainly made more difficult when there is not a consistent philosophy to serve as a guide.)

A student aid program should be configured to accomplish specific results. The results that Congress now wishes the Pell Grant program to accomplish, given the current state of higher education participation and the funding climate, are not very clear. Is the money to be scattered among the many or concentrated on the few? If the many, how many? If the few, which few? What are the priorities?

In summary, I don't find Mr. Fischer's arguments for adopting the Congressional Methodology as the single formula to be persuasive. Until a coherent philosophy of need analysis and a specific current purpose for the Pell Grant program are defined, it will be difficult to derive or adopt a single analysis formula to determine both. If you don't know where you are trying to go, how can you possibly tell when you've gotten there? ♦

Is Simpler Always Better?

by Joe Paul Case

The direction of Fred Fischer's paper has great appeal. Since the introduction of the Pell (then Basic) Grant formula in the early 1970's, financial aid administrators have wanted to simplify the student aid delivery process by using a single need analysis procedure for all federal Title IV programs. Simplification has merit, but implementation of Mr. Fischer's proposal, without alteration, could cause serious financial harm to many current Pell Grant recipients and their institutions. Mr. Fischer focuses too much on the budgetary advantages of adopting the Congressional Methodology for Pell Grant purposes, without giving sufficient attention to the potential dislocations that outright movement to an unadapted methodology would cause.

He has demonstrated that, contrary to popular opinion, in most cases the expected family contribution under the Congressional Methodology ("general need analysis") is greater than the contribu-

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